Q1 2016 Investment Update
Podcast Executive Summary

This is an Executive Summary of our recent investment podcast posted on our website [millercapital.com].

EXECUTIVE SUMMARY

- While stock markets around the world have been declining due to several contributing factors, the primary cause, in our opinion, is slowing global growth caused by changing demographics; the aging of the world population and the slowing growth of the world's labor force [also impacted by dramatic improvements in automation/robotics].
- A sharper economic slowdown [not yet a U.S. recession] is occurring within this demographic slowdown, caused by a variety of factors [strong U.S. Dollar, weak manufacturing, energy industry recession]. This "slowdown within a slowdown" is upping fears and lowering most stock prices.
- Slowing global growth is not always bad for stocks if interest rates remain very low. As Warren Buffett said recently, he'd been an aggressive buyer of stocks for the long-term if interest rates remain this low.
- Even though stocks may be attractive over the long-term if interest rates remain low [as we expect], fears of a U.S. recession fears have been building not just because of certain economic data, but because recessions have led to large stock market declines in the past.
- The average stock market decline during a U.S. recession [since 1970] is nearly -40%, which is an additional -25% decline compared to the recent stock market decline of about -15%. The average stock market decline in a correction without a recession is about -15%, which is close to the recent decline. One significant difference from past recessions is that interest rates today are much lower, likely providing a greater stock market cushion in a mild recession. At this time, we don't anticipate a U.S. recession, just a further slowing of economic growth.
- Central banks [including our Federal Reserve] no longer have the power to effectively counter lower economic growth driven by demographic trends, in our opinion. Market forces are becoming more powerful than central bank action. This is good in the long-term, but creates fear in the short-term.
- Being selective, there are equity investments that have declined substantially in the recent correction that have limited exposure to a recession [not our base case] or further economic slowdown.
- Many equity investments that have greater exposure to a recession or further economic slowdown have already experienced price declines similar to a recession, whether a recession occurs or not.
- The ability to selectively invest in equities [not just in broad stock index funds] provides an opportunity to take advantage of fear based selling that has been dominating stock markets lately.
- Many stocks with very high valuations that were purchased because they were going up in price [momentum stocks], have experienced substantial price declines that may not recover anytime soon.

ABOUT MILLER CAPITAL

Founded in 1999, Miller Capital is an independent Registered Investment Advisor providing investment management and consulting to individuals, trusts, private companies and organizations.